CANADIAN BANKS

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Canadian banks - Office of the Superintendent of Financial Institutions (OSFI) and the major Canadian banks are pushing back against the Volcker rule, a key plank of U.S financial reform that they say would unfairly punish Canadian banks that deal closely with the U.S. market.

The rule, a controversial part of the massive 2010 Dodd-Frank financial oversight law, is designed to prevent U.S. banks from trading with their own funds and to limit investments in hedge funds and private equity firms. But in a letter delivered to U.S. authorities in December and made public on Friday, OSFI said the draft rules would limit Canadian banks ability to manage their risks and efficiently manage their liquidity. "OSFI is concerned that the draft regulations may have the unintended consequence of significantly impeding Canadian and other foreign financial institutions ability to manage their risks in a cost-effective manner," OSFI head Julie Dickson said in the letter. The Volcker rule would apply to each foreign bank with a branch, agency or subsidiary in the United States. Canada s five biggest banks all have a notable presence in the United States.

The submission is part of a behind-the-scenes effort kicked off by the **Canadian Bankers Association (CBA)** late last year to get U.S. authorities to alter the bill before it comes into effect, which could be as early as this summer.

CANADA BANKS U.S. PRESENCE **Terry Campbell**, head of the banking industry lobby group, said the rule could have the effect of squeezing liquidity from the Canadian bond market, noting that the law treats Canadian bonds as higher-risk securities than U.S. bonds, and has exemptions only for banks that trade in U.S. debt. This could cause problems for Canadian banks with U.S. operations that routinely move large amounts of Canadian sovereign debt as part of the normal operations of Canada s bond market. "Banks need to be able to trade in sovereign debt. You help make markets in that regard and that helps the Canadian government, but you also have to be able to hold and trade those kinds of debt to be able to manage your risks, and this would severely limit that," Campbell told Reuters.

The CBA often speaks for Canada s banks on industry-wide issues such as this. Sorting through the new rules and limitations will certainly add to costs at Canadian banks with cross-border operations, and could put them at a disadvantage versus smaller domestic competitors, critics say. Campbell said the CBA has also been in contact with the Bank of Canada and the federal Finance Department. The lobbying effort claimed a small victory in December, when U.S. authorities extended the comments deadline on the rule by a month to Feb. 13.